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STATE FOR P, NEA/ARPI, PM/ISD, EUR/WE
TREASURY FOR RLEBENSON AND ASZUBIN

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TAGS: [ETTC](#) [EFIN](#) [PTER](#) [PREL](#)

SUBJECT: FRANCE WEIGHING FINANCIAL MEASURES AGAINST IRAN

REF: LONDON 4338

Classified By: DCM Karl Hofmann for reasons 1.4 (b) and (d).

1. (S) Undersecretary of Treasury for Terrorism and Financial Intelligence Stuart Levey met with French officials on June 8 to discuss possible financial measures that could be used to increase pressure on Iran. In meetings at the MFA held jointly with the French Economic Ministry, U/S Levey laid out U.S. thinking on a full range of financial disincentives for Iran, including persuading financial institutions to cut their ties with Iranian government and commercial entities involved in proliferation or the funding of terrorism. French officials were eager to hear the ideas, but raised questions regarding the proper legal framework, the proper targeting, and the overall effectiveness of any such measures. French officials welcomed what they characterized as a continuing refinement in US thinking from previous discussions in Moscow. France also confirmed its intention to arrange a high-level meeting on June 19 in Paris to discuss general financial measures to combat the financing of WMD with key partners (US, UK, Germany and Italy), although it took care to distinguish between the short-term need to deal with Iran as opposed to the long term need to deal with financial controls for WMD proliferators. French officials expressed great interest in continuing the bilateral dialogue. End Summary.

2. (U) Participants:

French Foreign Ministry:

Stanislas Lefebvre de LABOULAYE

Director General Political Affairs and Security

Jacques LAPOUGE

Director General for Economic and Financial Affairs

Thierry MATHOU

Director for Economic and Financial Affairs

Francois RICHIER

Director for Disarmament and Nuclear Non Proliferation

Philippe Carre, Director for Strategic Affairs, Security and Disarmament

Paul DAHAN

Deputy Director for Strategic Affairs, Security and Disarmament

Philippe ERRERA

Charge, Policy Planning (CAP)

Patrick ALLARD, Policy Planning

French Economic Ministry:

Xavier MUSCA

Director General of Economic Policy and Treasury

Regis PELISSIER

Office Director for Int,l Monetary & Financial System

USG

Stuart LEVEY

Treasury U/S for Terrorism and Financial Intelligence

Rachel Loeffler

Deputy Director) Middle East and Africa, Treasury,

Terrorist Financing and Financial Crimes

Karl HOFMANN

Deputy Chief of Mission, U.S. Embassy, Paris

Otto H. VAN MAERSEN,

EconOff, U.S. Embassy, Paris

3. (S) During a June 8 visit to Paris, Treasury Under Secretary for Terrorism and Financial Intelligence Stuart

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Levey presented current U.S. thinking on possible financial measures against Iran to officials in the French Foreign and Economic Ministries. U/S Levey said that the U.S. was looking at financial measures to keep pressure on Iran to end its efforts to develop nuclear weapons. Laboulaye confirmed French interest in this issue, and affirmed that France had decided to host another multilateral meeting in Paris on June 19 (with the US, the UK, Germany and perhaps Italy) to look at the issue of proliferation financing more generally.

4. (S) Levey said that our current focus is to identify bad actors and freeze their assets by further developing existing mechanisms in the fight against terrorism and proliferation financing. His visit, however, reflects a desire to work with our partners in advance to determine what measures might be

appropriate if Iran continues to develop nuclear weapons and fund terrorism, since there are many other avenues possible before getting to the point of an international sanctions regime. For example, governments could provide the private sector with information on various Iranian government and commercial entities involved in proliferation financing and urge them to consider the risks of doing business with such entities. Levey also advocated designations in the terrorism context pursuant to UN 1373 obligations, and suggested the possibility of suspending export credit insurance as another avenue. Following discussions earlier in the day with our G7 finance partners in Zurich, Levey said that he understands the desire for an official multilateral mechanism, but encouraged ideas about how to deny Iran critical access to the international financial system through multilateral cooperation. 5. (S) Laboulaye remarked that he sees the USG has made progress in our thinking. He agreed that governments have an important responsibility to inform financial institutions of the risk of facilitating nuclear proliferation, as is done in the anti-money laundering and terrorism finance context. He noted the efficacy of notifying financial institutions about these risks. He also stressed a preference that any actions which require legal authority should be taken in a way that is compatible with all countries, legal systems. For the EU members, this militates a preference to go through the UN. Laboulaye suggested that moral suasion, assets freezing, and suspending financial transactions all pose technical problems, but France is still thinking along those lines now.

16. (S) Speaking from the Treasury perspective, Musca reported that discussions in Zurich revealed little disagreement among the G7, minus the US. Finance Ministries acknowledge that any decision about Iran will be a political one, but the technical issues of implementation require looking at certain questions. First, the obvious question is the target) is it specific entities or Iran as a whole? He argued that a sanctions regime would ultimately be aimed at Iran as a whole. Second, for the EU members, per the Maastricht treaty, it is very hard to impose restrictions on capital flows. Therefore, an EU law or a UN resolution is required, but UN cover is preferable. Moral suasion is difficult to accomplish for precisely this same reason) governments are constrained from restricting capital flows. There is a big difference between informing companies and telling companies what to do. No precedent exists for this kind of pressure. Last, if Iran is the target, Iran will retaliate with its oil. As the British noted, the more the West threatens, the higher oil prices go up.

17. (S) Levey countered that oil can be used as a weapon no matter what the international community decides to do, that we should not underestimate the power of moral suasion, and that the USG does not want to target the private sector in Iran. Musca replied that France, as other countries, has made considerable investments in Iran, not just portfolio investments but, for example, including car manufacturing plants that French banks have financed. Those banks are not subject to moral suasion, as there is no reputation risk to financing automotive plants in Iran. Levey reiterated that the financial measures up for discussion should be understood as a category of actions that would inflict more harm on Iran than our allies. Levey explained that the measures were very much open for discussion and welcomed feedback as well as additional suggestions.

18. (S) Carre, suggested that perhaps the best route is to sequence actions. Targeting proliferators is useful. He asked for a list, prompting Levey to provide the US Executive Order. Carre mentioned the German sensitivity to dual use technology controls, remarked that proliferation controls are likely to last much longer than the immediate situation with Iran, and suggested that politically it may make sense to not link the issues. Levey agreed that non-proliferation requires a sustained effort, mentioning the case of an Iranian entity that manufactures cars but also sought dual-use magnets. Iran will continue to obfuscate to hide its intent. The DCM added that one recent case was instructive to illustrate the power of persuasion, namely South Africa, where the action of the international community was significant.

19. (S) Musca asked whether our intent is to impose financial controls, or use export control mechanisms that already exist, reiterating that for France, it needs a law and therefore needs the UN for financial controls. Levey said he understands total financial isolation is not feasible in the short term. It is a theoretical endpoint; however, Iran should have plenty of off-ramps before it gets to that point. Lapouge then asked how the US implements its moral suasion, and Levey explained current USG/Iran sanctions, regulatory responses, and the subtle pressure of indicating we will continue to ferret out and identify cover entities, which means many companies will choose to avoid transactions with Iran.

¶10. (S) Levey also raised the idea of discussing Iran within the context of the the Financial Action Task Force. Levey explained our idea to have the FATF at its next meeting in June put Iran on the agenda for its October meeting to look at deficiencies in the Iranian anti-money laundering/counter-terrorist financing (AML/CFT) regime. Musca pointed out the difficulty of involving the FATF, a technical body, in a political decision, but said it is a very interesting idea since it will lead to reinforced vigilance over Iranian transactions. Laboulaye also found it very interesting, although he expressed concern about the timing, since our offer was just presented to Iran. Errera added that identifying bad actors is high-maintenance, and we need to think about what happens if we do get an EU or UN legal basis for imposing financial restrictions) how does one implement it? Levey said the USG is preparing a map of the Iranian proliferation network, and would like to engage in information sharing. Laboulaye welcomed the offer, as it would help France decide to move forward, and agreed to work with the Embassy to organize its ideas.

¶11. (S) Laboulaye closed saying France had had the impression that the USG had decided what it was going to do with Iran and impose its will on the rest of the world, but now it appeared willing to see how it could work through the issues first with its European partners. He wryly observed that the last time he had flown to Tehran, the plane had been full of business persons from all nationalities.

¶12. (S) COMMENT: Although France has many implementation considerations; our impression is that the Foreign Ministry is eager to work through the hesitation from the Finance Ministry, and work with us to have in place a graduated package of financial measures, if needed.
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